CON-NEXUS

Management Pension Board responds to Johnston proposal

A 22-page response on behalf of the Alberta government's 4,000 managers has been presented to Treasurer Dick Johnston as the government deals with public sector pension reform.

The response, prepared by the Public Service Management Pension Plan Board, followed input from managers through departmental and individual submissions.

Jerry Faries, who chairs the Pension Board, says the document should be considered an initial response. Many of the Board's recommendations are contingent on further discussions with the Minister. And there was a lack of sufficient information at that time to assess alternatives to the Minister's July 9, 1991 proposal.

"We received some excellent feedback from managers," Faries said. "It provided legitimacy to the Board and our recommendations."

The report addressed current service costs, indexing, unfunded liability and other benefits.

Briefly, the Board's recommendations are listed below.

FUNDING

- The present defined benefit plan should be preserved, the report says. Any expressed desire by managers to opt out of the present plan was as a result of the dramatic shift in the cost sharing found in the Minister's proposal.
- Employees and employers should share the cost of future funding. The Board recommends current service be established on a unit credit method, with a one-per-cent productivity assumption. The report says the existing cost-sharing ratio should be maintained.
- The Alberta government should be responsible for the past service unfunded liability.
- The Board recommends existing employees should share a portion of the cost of securing cost-of-living indexing of benefits under the plan.
- Governance of the managers' pension plan should be reviewed to provide for joint trusteeship involving representatives from the management group and the government.

TAX REFORM

- The Board recommends that the early retirement reduction factor on service earned after 1992 be set at three percent for every year the member retires early.

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SPECIAL EDITION

PORTABILITY

- Reciprocal transfer agreements should be maintained, the report recommends, and the costing of such transfers should be "cost-neutral" to the plan. But, for calculating the early retirement reduction factor and for vesting purposes, the service should be recognized.
- Purchase of prior service, permitted under federal tax rules, should be allowed, but on a *"cost-neutral"* basis.

The issue of governance is a focal point in the Board's report. Faries says it is not out of a desire to gain 'control' of the pension plan, but to obtain proper reporting and accountability. The Minister's proposal indicates the original pension deal is no longer acceptable to government.

The Board's report says under the Minister's proposal, the pension deal would change from a *"partially funded provincially guaranteed defined benefit plan"* to a *"full self-funded employer/employee shared risk-reward arrangement."*

"Unless the governance consequences of the 'new pension deal' *are properly addressed, there will be no legitimacy to imposing the discipline of full self-funding on employees and employers,"* the report concluded.

In addition, because of the restriction of federal tax reform on management compensation (i.e. spousal benefit reduction and the cap on salaries) the Board recommends the government consider a further plan to offset the reduction in compensation.

Absent from the report are specific recommendations on the management pension plan's unfunded liability. Faries said accounting information was not available in time for the Board to properly address the question.

Regardless, there's an important message for managers, he says.

"I don't think we should get all carried away with the rhetoric that the plan is being mismanaged over the last while. It's not a question of management. It's a change in the way the liability is accounted for and funded."

Faries says the management plan is still one of the best public service pension plans in Canada. But some changes will have to be made to comply with federal tax legislation in order to maintain the plan's registration.

WHAT'S NEXT FOR THE BOARD?

A meeting with Treasurer Dick Johnston is scheduled for November 14.

Information will be fed back to Alberta government managers, although Faries says the board has found the consultation process with managers quite difficult.

"We really don't have a network. It's very difficult to deal with managers as a group when you are receiving feedback from individuals."

When the dust has settled, Faries says there will certainly be a higher profile for the mandate and members of the Public Service Management Pension Plan Board.

"We're all managers in government, and we're acting in the best interest of the plan and in the best interest of its members.'

Faries chairs the Management Pension Board, comprising Don Harford of the Personnel Administration Office, Tom Forgrave of Municipal Affairs, and Oryssia Lennie of Federal and Intergovernmental Affairs. The Alberta government representative, and vice-chair, is A.F. (Chip) Collins.

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